



DEPARTMENT OF COMMERCE

Census Bureau

[Docket Number 220715-0157]

Request for Comment on Inflation Measures for Adjusting Historical Income

AGENCY: Census Bureau, Commerce.

ACTION: Notice of solicitation of comments.

SUMMARY: The Census Bureau is seeking comments on the use of alternative price indices to adjust dollar-denominated income values to reflect changes in the price level over time (inflation adjustment). Currently, historical estimates of income and earnings are inflation-adjusted using the Consumer Price Index for All Urban Consumers Research Series (R-CPI-U-RS) produced by the Bureau of Labor Statistics. The Census Bureau is considering adopting alternative chain-type price indices produced by the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis (BEA) for the inflation adjustment in the future. Based on comments received, the Census Bureau will weigh the advantages and disadvantages of these alternative price indices in choosing the optimal index for inflation adjustment.

DATES: Comments must be submitted in writing. To ensure consideration of comments, they must be received by **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. Because of delays in the receipt of regular mail related to security screening, respondents are encouraged to send comments electronically (see **ADDRESSES**, below)

ADDRESSES: Comments may be addressed to: Matthew Unrath, Economist, Income Statistics Branch, Social, Economic and Housing Statistics Division, U.S. Census Bureau, 301-763-0863. Email comments may be sent to sehsd.isb.inflation.comments@census.gov with the subject “Inflation Index.” You may also submit comments, identified by Docket Number USBC-2022-0010, to the Federal e-Rulemaking Portal: <http://www.regulations.gov>. All comments received

are part of the public record. No comments will be posted to <http://www.regulations.gov> for public viewing until after the comment period has closed. Comments will generally be posted without change. All Personally Identifiable Information (for example, name and address) voluntarily submitted by the commenter may be publicly accessible. Do not submit Confidential Business Information or otherwise sensitive or protected information. You may submit attachments to electronic comments in Microsoft Word, Excel, or Adobe PDF file formats.

Electronic Availability: This notice is available on the internet at the Census Bureau's website at <https://www.census.gov/topics/income-poverty/income/guidance/alternative-inflation.html>. Federal Register notices are also available electronically at <https://www.federalregister.gov/>.

FOR FURTHER INFORMATION CONTACT: For further information about this request for comments, contact Matthew Unrath, Economist, Income Statistics Branch, Social, Economic and Housing Statistics Division, U.S. Census Bureau, 301-763-0863, or email sehsd.isb.inflation.comments@census.gov with the subject "Inflation Index".

SUPPLEMENTARY INFORMATION: The Census Bureau is seeking public comments on the strengths, weaknesses, and best practices for the application of chain-type price indices used for the inflation adjustment of historical income and earnings estimates. Currently, the Census Bureau uses the CPI-U Research Series (R-CPI-U-RS) produced by BLS for the inflation adjustment. The Census Bureau is considering the following alternative chain-type price indices: the Chained Consumer Price Index for All Urban Consumers (C-CPI-U) produced by BLS, and the Personal Consumption Expenditures Price Index (PCEPI) produced by BEA. More information about the potential change, the alternative chain-type price indices, and Census Bureau's research on this topic can be found at the Census Bureau's website: <https://www.census.gov/topics/income-poverty/income/guidance/alternative-inflation.html>.

Background

The Census Bureau has considered using a chained-type price index to inflation adjust its historical and earnings estimates for several years. The *Income and Poverty in the United States* reports from 2019 and 2020 both contain appendices documenting how applying alternative inflation indices would affect historical income and earnings estimates. These reports can be found on the Census website: Appendix C in the 2019 report (<https://www.census.gov/library/publications/2020/demo/p60-270.html>) and Appendix D in the 2020 report (<https://www.census.gov/library/publications/2021/demo/p60-273.html>). The *Income in the United States, 2021* report will also contain a similar appendix. Furthermore, Census Bureau is especially motivated to seek public comment on this change now due to a recent report issued by the Interagency Technical Working Group on Consumer Inflation Measures (ITWG). As discussed more below, the ITWG report included a set of principles to help guide federal agencies in their selection of the most appropriate inflation index for their specific purpose. Census Bureau's use of the two chained-type price indices would be consistent with the ITWG's guidance and framework.

Inflation Adjustment of Historical Income Statistics

Inflation is defined as a rise in the general level of prices (and deflation as a decline in the general level of prices). Adjusting income statistics for inflation better reflects changes in purchasing power over time. In its annual report, *Income in the United States*, the Census Bureau presents historical income and earnings statistics from the Current Population Survey's Annual Social and Economic Supplement (CPS ASEC) that are adjusted for inflation.

Current Method

The current method for the inflation adjustment that the Census Bureau uses in its annual income report relies on the Consumer Price Index Research Series (R-CPI-U-RS) produced by BLS. The R-CPI-U-RS presents an estimate of the CPI for all Urban Consumers (CPI-U) from 1978 to the present that incorporates the numerous improvements made over that time span into the entire series. For years 1967-1977, the Census Bureau uses inflation estimates from the CPI-

U-X1 series, an experimental series that preceded the R-CPI-U-RS. For years before 1967, the Census Bureau uses a backwards projection, assuming the same ratio between the R-CPI-U-RS and CPI-U as there was in 1967.

Chain-Type Price Indices

Despite the improvements made to the CPI-U and incorporated into the R-CPI-U-RS, both of these measures have weights that are based on a base period of consumer expenditures that are a few years old, and therefore both measures risk overstating increases in the cost of living. Inflation measures that use weights contemporaneous to the months involved in the calculation better account for consumer substitution and are known as “chained” measures. Examples include the C-CPI-U produced by BLS and the PCEPI produced by BEA. Each are explained below.

The Chained Consumer Price Index for All Urban Consumers (C-CPI-U)

Like the CPI-U, the C-CPI-U is designed to measure price changes faced by urban consumers. BLS uses the same data on prices and spending patterns, as well as the same sample of U.S. residents, to construct the C-CPI-U and the CPI-U. The difference between the two indices is that the C-CPI-U is designed to more rapidly account for how consumers adjust spending when relative prices change. More information can be found at the BLS website: www.bls.gov/cpi/additional-resources/chained-cpi-questions-and-answers.htm. The C-CPI-U aggregates price changes using a formula and weights based on consumers' *current* expenditures, as opposed to the CPI-U which weights items based on expenditure shares from a specified base period. By weighting price changes according to consumers' current expenditures, the C-CPI-U better reflects changes in consumers' actual cost of living. Since expenditure data for the reference month are not immediately available from the Consumer Expenditure Survey, BLS releases preliminary estimates of the C-CPI-U which are revised later after the expenditure data are available. Final estimates of the C-CPI-U are typically produced 10 to 12 months after the initial publication of the preliminary estimates. The C-CPI-U was first

published in 2002 and is available for years 2000 and later.

The Personal Consumption Expenditures Price Index (PCEPI)

The PCEPI tracks changes in the prices of a wide array of goods and services purchased by consumers and by nonprofit institutions that serve households. More information about the PCEPI can be found at the BEA website: *www.bea.gov/data/personal-consumption-expenditures-price-index*. To create the PCEPI, BEA uses data collected by BLS to construct the CPIs and Producer Price Indices (PPIs). The PCEPI differs from the C-CPI-U in weighting, formula, and scope. A summary of these differences can be found at the BEA website: <https://www.bea.gov/help/faq/555>. The PCEPI incorporates expenditure data from non-consumers and tracks spending patterns using the PPI. Like the C-CPI-U, the PCEPI accounts for substitution when relative prices change, although the PCEPI uses a different formula for aggregating price change. The PCEPI is available for years 1959 and later.

Alternative Price Index Series to the Census Bureau's Current Method

In 2019, the Office of Management and Budget convened the Interagency Technical Working Group on Consumer Inflation Measures (ITWG). In 2021, the ITWG issued a report to OMB, in which it outlined a list of principles related to the proper application of alternative price indices. The appendix to the report included an “All purpose index decision-making flowchart” as a tool for applying these principles. In the documentation accompanying that flowchart, the example chosen to demonstrate how this flowchart can be used was the Census Bureau decision about which index to use to adjust historical median nominal household income for inflation. Per this example, consistency with the ITWG principles would suggest the Census Bureau select the C-CPI-U for the periods for which that is available (2000 and forward) and select the PCEPI for periods for which the C-CPI-U is not available (prior to 2000). The ITWG published a Federal Register Notice in May 2019 requesting comments on, among other things, “the strengths and weaknesses of the different indexes for making annual adjustments to the historical income figures produced by the Census Bureau.” Only one comment, out of more than 57,000

comments received, addressed this issue. The ITWG's final report can be found on the BLS website: <https://www.bls.gov/evaluation/technical-recommendations-for-the-consumer-inflation-measure-best-suited-for-conducting-annual-adjustments-to-the-official-poverty-measure.pdf>.

The Census Bureau is considering two price index series as alternatives to the current method: (1) the C-CPI-U for years 2000 and later combined with the current method for years prior to 2000; (2) the C-CPI-U for years 2000 and later combined with the PCEPI for years prior to 2000. By relying solely on chained indices, the latter series may best align with the ITWG's principles. The Census Bureau has provided a technical working paper that documents the implications of using these two alternative series for CPS ASEC historical estimates of median income and earnings. This technical working paper can be found on the Census Bureau's website: <https://www.census.gov/library/working-papers/2022/demo/SEHSD-wp2022-10.html>.

REQUEST FOR PUBLIC COMMENT:

The Census Bureau is seeking comment from the public on (1) for the period 2000 to the present, the strengths and weaknesses of using the C-CPI-U for inflation adjusting historical income and earnings estimates relative to the current method (2) in the event the C-CPI-U is selected for the period 2000 to the present, the strengths and weaknesses of using the PCEPI for periods prior to 2000 (for which the C-CPI-U is not available) 3) the strengths and weaknesses of using the current method for periods prior to 2000; (4) recommendations for the use of the preliminary C-CPI-U for the production of official income statistics, considering that it is subject to revision after initial release.

Robert L. Santos, Director, Census Bureau, approved the publication of this Notice in the *Federal Register*.

Dated: August 29, 2022.

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